

DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

STATE review(s) completed.

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28 May 1968

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Approved For Release 2003/04/24 : CIA-RDP79T00975A011300040001-1

Approved For Release 2003/04/24 : CIA-RDP79T00975A011300040001-1

SECRET

No. 0167/68
28 May 1968

Central Intelligence Bulletin

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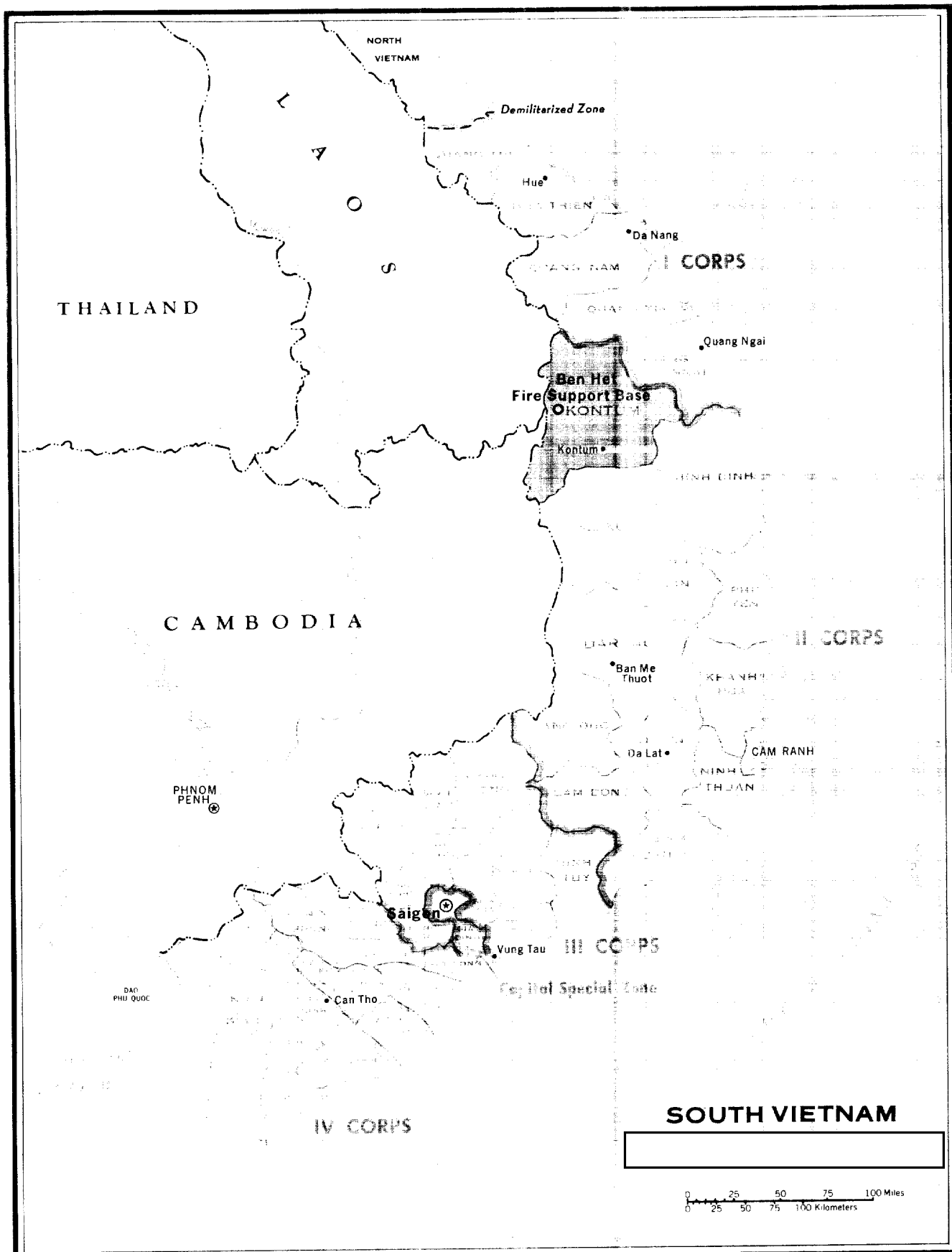
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[South Vietnam: The ground war eased somewhat on 27 May following heavy combat over the weekend.

In the fighting around Saigon, an enemy force that assaulted a US Army position six miles northwest of the capital is reported to have lost 218 killed. Sharp skirmishes were also reported on the northern and western outskirts of the city.

In Kontum Province, the US fire support base near Ben Het has been cleared of the enemy. Part of the base had been overrun on 25 May by two battalions of the North Vietnamese 325C Division.

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The initial reaction of the Upper House to the new cabinet of Prime Minister Huong was mildly hostile.

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25X1 [Senator Tran Van Don, leader of the National Salvation Front, is also apparently annoyed that he had no voice in selecting Huong's ministers.]

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[France: Labor's rejection of a proposed economic settlement has considerably diminished hopes for an early solution of the present crisis.

Secretary General Seguy of the Communist-led General Confederation of Labor (CGT) has responded to widespread rank-and-file demands by announcing that the CGT will not sign the "protocole d'accord" hammered out over the weekend by union, business, and government negotiators. Although they have been granted major concessions, the rank and file, caught up in the momentum of a successful protest movement, evidently believe that they may win even greater concessions by continuing the strike.

The government, which has not yet responded to this latest move, is under strong pressure not to make further concessions. Finance Minister Debre was reportedly opposed to certain concessions already granted, and the Patronat, France's powerful factory employers organization, accepted the protocol only with great reluctance. In addition, Citroen, the first major firm to initiate such action, is now seeking a court order to evict striking workers--a move that will place the government in a difficult position as well as exacerbate labor-management tension.

Because of his awareness that his speech on 24 May was not well received, De Gaulle reportedly now questions the wisdom of his referendum proposal. In an effort to regain the initiative, the French President may make new moves before the referendum vote, which is scheduled for 16 June. He may, for example, make a special appeal during his scheduled radio-television "dialogue" on 3 June. Cabinet changes are still expected by many observers, but estimates as to the timing vary widely.

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Panama: Arias forces now have the upper hand in the vote counting and can be expected to expedite an announcement declaring him president-elect.

Government stalling tactics had nearly halted the ballot count when National Guard commandant Vallarino moved to end the stalemate on Sunday. He ordered the newly installed pro-Samudio president of the National Elections Board barred from the building where the final tally was under way on grounds that his appointment was illegal. In addition, Vallarino played an influential role in having the pro-Arias first alternate reinstated as president of the board.

A walkout of progovernment board members gave Arias representatives an opportunity to step up the pace of the tabulation, which shows Arias pulling ahead by a substantial margin. The presence of several unofficial observers from a recently formed civic-religious organization should guarantee the honesty of the count and offset likely charges of fraud by Samudio.

An announcement of Arias' victory by the elections board could come today. Such a move might prompt government and Samudio supporters to make a last-ditch effort to block Arias by urging pro-Samudio elements in the guard to oust General Vallarino and by engaging in violence. Although the guard is ostensibly supporting the general's position, there are unconfirmed reports that a dissident clique of officers opposed to Arias may be discussing plans to move on their own.

President Robles has been under pressure from Samudio backers to remove Vallarino, but thus far Robles has refused to do so because he believes

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such an attempt would be futile. Moreover, an attempted dismissal probably would prompt Vallarino to replace Robles with First Vice President Delvalle. The US Embassy notes that this might happen in any case as a result of increasing pressure from Arias followers. Meanwhile, Vallarino's open support of the opposition is likely to spur defections among Samudio followers.

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Rumania-Yugoslavia: Rumania's Nicolae Ceau-sescu led a high-ranking party and state delegation to Belgrade yesterday to begin talks with President Tito. The two will find much on which to agree. Each, for instance, opposes Soviet hegemony and the convocation of a world Communist conference in Moscow later this year. Each supports the reformist Czechoslovak regime, the nonproliferation treaty, and ties with West Germany. In addition to discussing these and other international and bilateral issues, Tito may ask the Rumanians to attend the nonaligned conference he plans to hold early next year.

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Peru: President Belaunde's inability to deal with Peru's serious economic problems was underscored at a meeting last week of the President, cabinet members, and the leaders of both houses of the opposition-controlled Congress. His proposals received virtually no support, and later the prime minister privately referred to them as "pure drivel."

New problems could arise from the reported resignation of the president of the Central Reserve Bank and most of the bank's board of directors; they disagreed with the administration over its foreign exchange policy and its failure to reduce the fiscal deficit and restrict public credit. If these resignations are final, confidence in Peru's economy will decrease even further.

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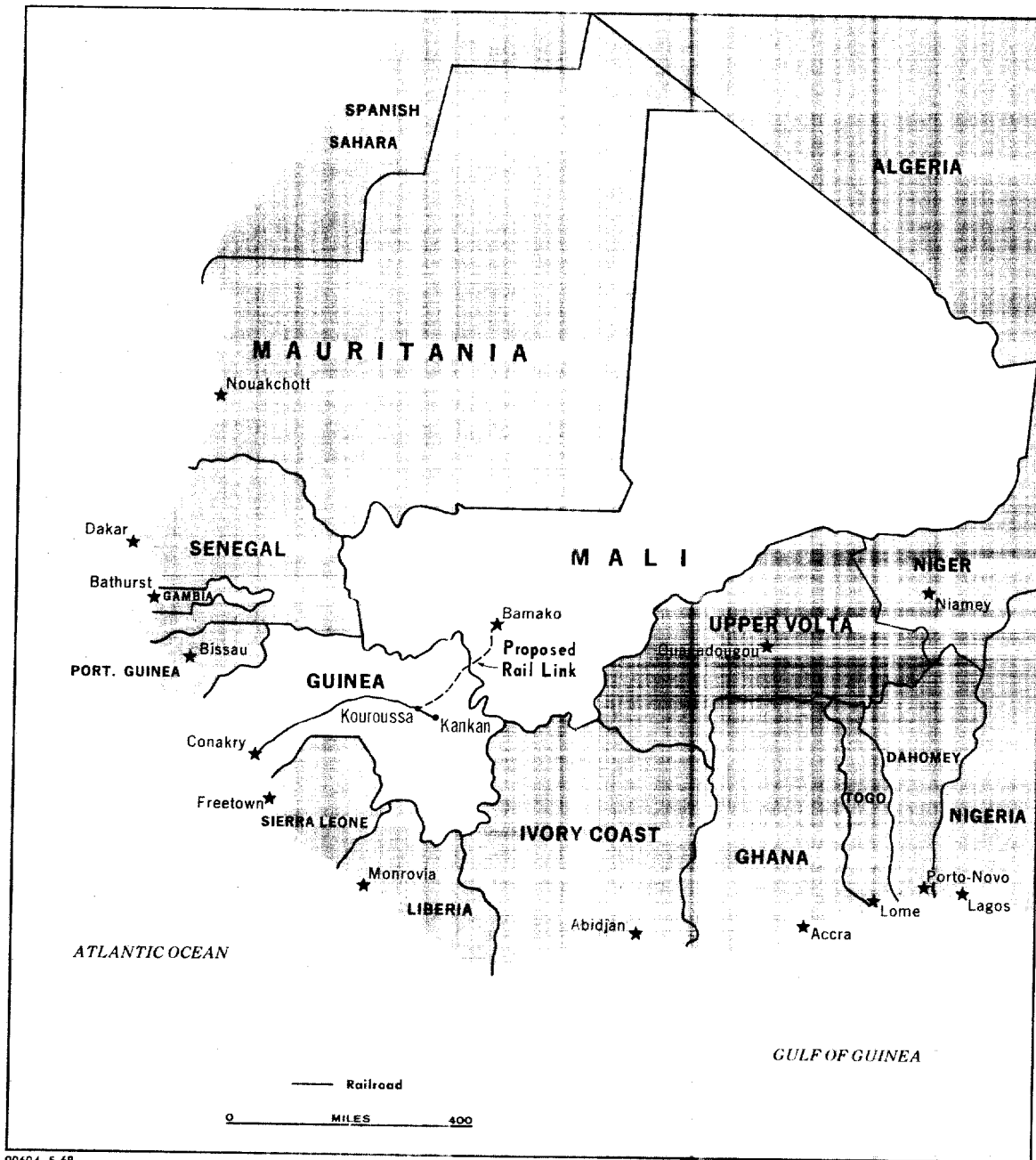
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Proposed Guinea-Mali Rail Link



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Guinea - Mali - Communist China: Under an accord among Guinea, Mali, and China, signed in Peking on 24 May, the Chinese have agreed to construct a 200-mile railroad to link Guinea with Mali. Although details are lacking, the Chinese commitment may involve the sending of a sizable number of technicians to Mali and Guinea, and the offer of a loan on very generous terms. If the accord is similar to that concluded earlier for the construction of the Tan-Zam railroad, repayment will probably extend over a long period and may include at least partial repayment in goods.

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